

Message Text

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PAGE 01 PEKING 00253 140909Z

46

ACTION EA-10

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TAGS: ETRD US CH

SUBJECT: MORE DETAILS ON PRC CANCELLATION OF 600 THOUSAND
TONS OF US WHEAT

SUMMARY: JACQUES LANG, WHO NEGOTIATED LAST MONTH'S PRC
CANCELLATION OF 600,000 TONS OF US WHEAT FROM COOK
INDUSTRIES, HAS PROVIDED USLO WITH ADDITIONAL DETAILS.
THE CHINESE SAID THEY WISHED TO CANCEL BECAUSE OF THEIR
GOOD CROP LAST YEAR AND TO AVOID FURTHER PROBLEMS WITH
TCK. LANG BELIEVES, HOWEVER, THAT FOREIGN EXCHANGE
DIFFICULTIES WERE THE MAIN REASON, AND THAT TCK WAS NOT
A MAJOR FACTOR. HE CONFIRMED THAT THE SIZE OF THE
CANCELLATION PENALTY APPROXIMATED THE DIFFERENCE BETWEEN
CONTRACT PRICES AND CURRENT MARKET PRICES, BUT SAID
THE PENALTY WAS BALANCED AGAINST OUTSTANDING CHINESE
CLAIMS AGAINST COOK, AND NO CASH PAYMENT WAS MADE. THE
PENDING DREYFUS CONTRACTS FOR US WHEAT HAVE NOT YET
BEEN CANCELLED, LANG SAID, BUT HE BELIEVES THIS WILL BE
DONE SOON. LANG DOES NOT THINK US EXPORTS OF WHEAT TO
CHINA ARE AT AN END, BUT EXPECTS THE CHINESE WILL BUY
MORE WHEN THE NEED ARISES. END SUMMARY.

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PAGE 02 PEKING 00253 140909Z

1. JACQUES LANG OF COMPAGNIE GRANIERE PARIS, WHO LAST MONTH NEGOTIATED CANCELLATION OF PRC ORDERS FOR 600,000 TONS OF US WHEAT WHICH WERE TO BE SUPPLIED BY COOK INDUSTRIES, CALLED AT USLO FEBRUARY 10 TO PROVIDE BACKGROUND INFORMATION ON THOSE NEGOTIATIONS. LANG WAS PASSING THROUGH PEKING AFTER VISITING PYONGYANG.

2. LANG APOLOGIZED FOR NOT INFORMING US OF THE CANCELLATION WHEN HE VISITED USLO ON JANUARY 18 (PEKING 0145). BOTH THE CHINESE AND COOK (THE LATTER FOR MARKET CONSIDERATIONS) WANTED THE MATTER HELD CLOSELY. BY WAY OF BACKGROUND, HE SAID DELIVERIES OF A PORTION OF THE WHEAT IN QUESTION WERE TO BEGIN IN JANUARY AND COOK HAD SUSPECTED A POSSIBLE CANCELLATION WHEN THE CHINESE DID NOT RESPOND TO DECEMBER REQUESTS FOR NOMINATIONS OF VESSELS TO TAKE DELIVERY. WHEN LANG ARRIVED IN PEKING IN JANUARY, HE WAS TOLD BY CHAU WING-SHUM, CEROILFOOD NEGOTIATOR, THAT CHINA HAD A GOOD CROP LAST YEAR AND ALSO WANTED TO AVOID FURTHER PROBLEMS WITH TCK. CHAU SAID CHINA FRANKLY DOES NOT NEED THE WHEAT, AND TOLD LANG THAT CEROILFOOD HAD REQUESTED POSTPONEMENTS OF CERTAIN DELIVERIES FROM CANADA AND AUSTRALIA, AS WELL AS THE US.

3. LANG SAID HE PROPOSED CANCELLATION OF THE 600,000 TONS BY SMALL SLICES BUT THE CHINESE PREFERRED TO CANCEL THE WHOLE LOT AT ONCE. AFTER A BRIEF AND NOT VERY DIFFICULT EXCHANGE OF COUNTER-OFFERS, A DEAL WITH STRUCK FOR COMPLETE CANCELLATION. A MAJOR PROBLEM, LANG SAID, IS THAT CEROILFOOD HAS NO MECHANISM TO MAKE CASH PAYMENT OF A PENALTY, AND HENCE IN THE FINAL DEAL, THE CHINESE PENALTY WAS BALANCED OFF AGAINST PENDING CLAIMS AGAINST COOK (APPARENTLY PERTAINING TO VARIOUS QUALITY COMPLAINTS). LANG CONFIRMED THAT THE SIZE OF THE CHINESE PENALTY DID ROUGHLY APPROXIMATE THE DIFFERENCE BETWEEN CONTRACT PRICES AND MARKET PRICES CURRENT AT THE TIME OF THE CANCELLATION (STATE 21601). ALSO, COOK WAS "FED-UP" WITH CHINESE QUALITY COMPLAINTS (WHICH LANG THINKS THE CHINESE EXAGGERATED LAST YEAR IN ORDER TO OFFSET LOSSES DUE SERIOUS PORT DELAYS) AND ON ITS PART WAS GLAD TO AGREE TO A CANCELLATION.

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PAGE 03 PEKING 00253 140909Z

4. LANG SAID HE WAS CONFIDENT THAT THE US WHEAT STILL ON ORDER FROM DREYFUS (SOME 360 TO 380 THOUSAND TONS, HE BELIEVES) HAS NOT YET BEEN CANCELLED, BUT HE THINKS IT WILL HAPPEN SHORTLY. HE SAID DREYFUS REPRESENTATIVE MARCEL MARQUOT, WHO HAS ALSO BEEN IN PYONGYANG, SHOULD BE BACK IN PEKING SHORTLY. THE DREYFUS CANCELLATION, LANG SAID, IS MORE DIFFICULT TO WORK OUT BECAUSE THE DISCREPANCY

BETWEEN CONTACT PRICES AND CURRENT PRICES, ON THE ORDER OF 7 OR 8 MILLION US DOLLARS, IS MUCH LARGER THAN IN THE COOK CASE. HE BELIEVES DREYFUS, DUE TO QUALITY PROBLEMS IT HAS HAD WITH THE CHINESE (PRINCIPALLY TCK), WILL BE GLAD TO GET OUT OF THE PRC WHEAT CONTRACTS.

5. LANG SIAD HE BELIEVES PRC FOREIGN EXCHANGE PROBLEMS ARE THE MAIN REASON FOR THE COOK CANCELLATION. HE NOTED THAT IN ADDITION TO RECENT CHINESE REQUESTS FOR DELIVERY DELAYS, THE CHINESE HAVE PURCHASED ONLY THE MINIMUM AMOUNT FROM AUSTRALIA THIS YEAR AND MOREOVER STRETCHED OUT THE DELIVERY PERIOD (PEKING 176). HE DOES NOT THINK TCK WAS MAJOR FACTOR, EVEN THOUGH THE PHRASE, "TO AVOID POSSIBLE RECURRENCE OF TCK" WAS WRITTEN INTO THE COOK CANCELLATION AGREEMENT. THIS WAS DONE, HE SAID, "TO ALLOW THE CHINESE TO SAVE FACE." LANG EMPHASIZED THAT COOK'S EXCELLENT RECORD SHOWS THAT WITH CARE IT IS POSSIBLE TO DELIVER CONSISTENTLY TCK-FREE WHEAT CARGOES TO CHINA. HE ALSO DOES NOT BELIEVE THIS IS THE END OF CHINESE GRAIN PURCHASES FROM THE US, AND EXPECTS THAT IN TIME OF NEED AND INABILITY OF CANADA AND AUSTRALIA TO MEET CHINA'S REQUIREMENTS, THE CHINESE WILL AGAIN BUY US WHEAT. HE IS LESS OPTIMISTIC, HOWEVER, IN VIEW OF CHINESE QUALITY STANDARDS, ABOUT THE FUTURE OF US CORN OR SOYBEAN SALES TO THE PRC.

6. THE FOREGOING INFORMATION WAS PROVIDED IN CONFIDENCE AND SHOULD BE CLOSELY HELD.
BUSH

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